

HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

214 O'Neill HOB # Washington, DC 20515 # 202-226-7200 # www.house.gov/budget_democrats

June 27, 2001

Bush Tax Cut and Defense Request Spend Medicare Surplus

Dear Democratic Colleague:

Late Friday afternoon, the Bush administration announced that it will seek a fiscal 2002 defense budget authority increase of \$18.4 billion above its February request. The attached House Budget Committee Democratic staff analysis shows how the Republicans' recently enacted tax cut, in combination with the defense request and other policies in their budget resolution and elsewhere, would spend the Medicare Trust Fund surplus over the six years 2003-2008 by a total of \$192 billion.

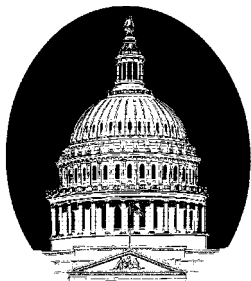
In the budget debate earlier this year, Democrats pointed out that the President's request, and the Republican budget resolution that embodied it, made no allowance for known future needs, or for unforeseen risks. Subsequent developments make the consequences of the Republican tax cut more clear. Even without the new defense request, the budget spent into the Medicare Trust Fund surplus in fiscal years 2003 and 2004 — and would have done so also in 2002 and 2005 (with a small surplus in 2004) were it not for a corporate income tax payment timing-shift. But this defense request makes the situation even worse.

This new administration inherited the largest budget surplus in our nation's history. Yet after only five months, the record eight-year string of improving budgets is over, and the budget is headed to tap the Medicare Trust Fund surplus for day-to-day government operations once more.

Sincerely,

/s

John M. Spratt, Jr.
Ranking Democratic Member



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June 26, 2001

Bush Tax Cut and Defense Spending Divert \$192 Billion in Medicare Funds

Late Friday afternoon, the Bush administration announced that it will seek a fiscal 2002 defense budget authority increase of \$18.4 billion above its February request. Because of their recently enacted tax cut, and in combination with other policies in their budget resolution and their recent policy pronouncements, the Bush administration and the Republican Congress now propose to spend the Medicare Trust Fund surplus over the six years 2003-2008 by a total of \$192 billion.

In the budget debate earlier this year, Democrats pointed out that the President's request, and the Republican budget resolution that embodied it, made no allowance for known future needs, or for unforeseen risks. Subsequent developments make the consequences of the Republican tax cut more clear. Even without the new defense request, the budget spent into the Medicare Trust Fund surplus in fiscal years 2003 and 2004 — and would have done so also in 2002 and 2005 (with a small surplus in 2004) were it not for a corporate income tax payment timing shift.

But this defense request makes the situation worse. The House Budget Committee Democratic staff analysis assumes that these defense funds are extended to future years with *only* inflationary growth. (The amount will likely be much more.) It assumes further that emergency spending in future years equals the average specified by the House Republican budget resolution, and that the major expiring tax benefits are extended — as most of them have been before. Even with only these modest — and virtually certain — additional costs, the budget spends into the Medicare Trust Fund surplus from 2003 through 2008 by a total of \$192 billion, with minuscule surpluses in 2001, 2002, and 2009.

Billions of dollars	2003	2004	2005	2006	2007	2008	2003-08
Spending of Medicare Surplus	-27	-33	-37	-37	-34	-24	-192

Recent signs suggest that this is but one more step in a continuing erosion of the surplus. The budget still does not account for the costs of undoing the impact of the Bush tax cut on the ballooning alternative minimum tax (AMT); repealing the tax bill's unlikely sunsets; enacting any of the further tax cuts that remain on the Republican Congressional calendar; and providing the further defense increases that Pentagon sources readily discuss in the press.

Any ill effects from the softness of the economy can only worsen the outlook; weak corporate tax receipts have already prompted predictions of \$20 billion reductions for both 2001 and 2002.

This new administration inherited the largest budget surplus in our nation's history. Yet after only five months, the record eight-year string of improving budgets is over, and the budget is headed to tap the Medicare Trust Fund surplus for day-to-day government operations once more — for at least until the first baby-boomers start collecting their Social Security checks.

EXCESSIVE TAX CUT AND BUDGET GIMMICKS THREATEN MEDICARE AND SOCIAL SECURITY

(Billions of dollars; CBO May assumptions)

BUDGET RESOLUTION AND TAX BILL	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Baseline Unified Surplus	275	304	353	400	437	508	578	641	718	806	883	5629
Social Security	156	172	187	202	221	238	256	275	293	311	330	2487
Medicare Part A	28	38	41	43	42	45	43	42	40	36	28	397
Available Surplus	92	95	125	155	173	225	279	324	385	459	525	2745
Enacted Tax Cut	74	38	90	107	107	135	151	160	167	187	129	1272
Non-Reconciled Tax Cuts	0	3	3	2	2	3	1	1	1	1	1	20
Medicare Rx and Home Health	0	0	1	11	22	29	40	46	49	54	61	314
Other Health	0	7	13	14	6	7	6	6	6	6	6	77
Agriculture	6	7	8	8	8	7	7	6	6	7	7	74
Veterans	0	0	0	1	1	1	1	1	0	0	0	6
All Other (Budget Resolution)	4	8	3	-4	-2	-4	0	-0	-0	-0	-4	-3
Average Historical Emergencies 1/	N.A.	2	4	5	6	6	6	6	6	7	7	55
Bush Defense Request 2/	0	10	14	17	19	21	23	24	26	28	33	214
Resulting Net Interest	2	6	12	21	31	43	57	74	93	113	134	584
"Contingency Reserve" 3/	6	12	-23	-28	-27	-22	-15	-0	30	56	150	134
 Memo: Funding Gimmicks 4/	-33	33	N.A.	-7	7	N.A.	N.A.	N.A.	N.A.	N.A.	99	
"Contingency Reserve" Without Gimmicks	39	-21	-23	-21	-34	-22	-15	-0	30	56	51	
 DIRECTLY IMPLIED ACTION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2002-11
Tax Extenders	0	1	4	5	9	14	17	20	22	25	27	145
Resulting Net Interest	0	0	0	0	1	1	2	4	5	6	8	28
Resulting "Contingency Reserve"	6	11	-27	-33	-37	-37	-34	-24	3	25	115	-39
 Spending of Medicare Surplus	0	0	-27	-33	-37	-37	-34	-24	0	0	0	-192

1/ Outlays resulting from House Republican estimate of historical average of \$5.6 billion per year of emergencies beginning in 2002, adjusted for inflation thereafter.

2/ Defense increase of \$18.4 billion in budget authority to Bush April 2001 defense plan, increased for inflation through 2011.

3/ Also equal to the non-Social Security, non-Medicare surplus.

4/ Timing shifts through corporate estimated tax payments; spurious revenue savings in 2011 because of early sunset of tax provisions.